

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 L-03 H-03 PRS-01 PA-04 USIA-15 FEAE-00

DODE-00 AGR-20 INT-08 PM-07 IGA-02 MC-02 ACDA-19

GSA-02 SAJ-01 DRC-01 /244 W
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R 120905Z AUG 74

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 3821

INFO AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMEMBASSY KUALA LUMPUR

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY MOSCOW

AMEMBASSY OTTAWA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

C O N F I D E N T I A L JAKARTA 9881

E.O. 11652: GDS

TAGS: EADI, ECON, EFIN

SUBJ: INDONESIA'S RESERVES AND AID

1. SUMMARY: IN CONVERSATION WITH ME AUGUST 9,
MINISTER OF DEVELOPMENT WIDJOJO SAID INDONESIA PLANS
USE NEW REVENUES TO BUILD UP BALANCES, STOCKPILE CERTAIN
COMMODITIES, MEET COST OVERRUNS OF CURRENT PROJECTS,
ACCELERATE NEEDED PROJECTS, INCLUDING EXPANDED SOCIAL
AND EDUCATIONAL PROGRAMS, AND INCREASE MILITARY PURCHASES.
GOI ESTIMATES FOREIGN CREDITS, ALTHOUGH ON LESS CONCESSIONAL
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TERMS, WILL STILL BE NEEDED. END SUMMARY.

2. IN MEETING WITH INDONESIA'S MINISTER OF DEVELOPMENT WIDJOJO AUGUST 9, I NOTED EMPHASIS PRESIDENT SUHARTO AND MEMBERS HIS GOVERNMENT STILL PLACED ON CONTINUING FOREIGN "ASSISTANCE " AND THAT THIS SEEMED DIFFICULT TO RECONCILE WITH ESTIMATES FROM SEVERAL SOURCES OF SUBSTANTIAL ANTICIPATED UN-COMMITTED BALANCES THIS YEAR FROM INCREASED OIL REVENUES, ESTIMATES WHICH RANGED FROM \$1.5 BILLION UPWARDS.

3. WIDJOJO SAID HE UNDERSTOOD PROBLEM. FACT WAS THAT INDONESIA HAD CLEAR PLANS FOR USE THESE RESOURCES, BUT PLANS NOT YET FULLY DEVELOPED AND EXPENDITURES SUPPLEMENTAL TO CURRENT BUDGET DID NOT NEED BE ANNOUNCED FORMALLY TO PARLIAMENT UNTIL END OF INDONESIAN FISCAL YEAR.

4. INDONESIA PLANNED USE NEW REVENUES AS FOLLOWS:

A. TO BUILD UP "NORMAL" FOREIGN EXCHANGE RESERVES OF COST OF FOUR MONTHS IMPORTS WHICH WIDJOJO ESTIMATED AS REQUIREMENT FOR \$1.6 BILLION IN RESERVES;

B. TO INCREASE SUPPLIES OF ESSENTIAL SPPLIES SO INDONESIA WOULD BE LESS VULNERABLE TO CHANGING CLIMATIC OR MARKET CONDITIONS. HE MENTIONED RICE, COTTON, FERTILIZER, CEMENT, AND STEEL RODS AS EXAMPLES.

C. TO PAY COST OVERRUNS OF DEVELOPMENT PROJECTS WHICH CANNOT BE MET BY OTHER SOURCES OF FINANCING. FIGURE CURRENTLY BEING ESTIMATED BUT COULD RUN AS HIGH AS HALF BILLION DOLLARS.

D. TO SPEED UP IMPLEMENTATION OF CERTAIN BADLY NEEDED PROJECTS IN SECOND FIVE YEAR PLAN. HE MENTIONED EXPANSION OF TANJUNG PRIOK (JAKARTA) PORT AND IMPROVEMENT ACCESS ROADS TO JAKARTA AS HAVING HIGHEST PRIORITY.

F. ACCELERATED ACQUISITION OF NEEDED MILITARY EQUIPMENT, TAKING INTO ACCOUNT RELATIVE NEGLECT OF MILITARY DURING FIRST FIVE YEAR PLAN. WIDJOJO
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DID NOT GIVE FIGURE, BUT ASKED ME IN DETAIL ABOUT VARIOUS METHODS ACQUISITION U.S. EQUIPMENT, INCLUDING GRANT MAP, FMS, AND DIRECT PURCHASES.

5. WIDJOJO THEN EXPLAINED THAT, GIVEN INDONESIA'S GREAT NEEDS, GOI WAS ACKNOWLEDGING NEW REVENUES BY NEW POLICY, ANNOUNCED AT LAST IGGI MEETING, OF SEEKING LESS CONCESSIONAL "ASSISTANCE." INDONESIA COULD NOT SAY THAT ITS NEEDS FOR CONCESSIONAL ASSISTANCE WERE ENDED BECAUSE SOME COUNTRIES, SUCH AS AUSTRALIA

STILL WISHED PROVIDE GRANT AID AND INDONESIA WISHED TAKE FULL ADVANTAGE OF POSSIBILITIES OF MIXING CONCESSIONAL AND LESS CONCESSIONAL AID. HE MENTIONED CANADIAN POLICY AS ONE WHICH PERMITTED MIXTURE OF EXPORT CREDITS, NORMAL CONCESSIONAL AID, AND COMMERCIAL CREDIT.

6. IN THIS CONNECTION, WIDJOJO SAID THERE HAD BEEN SPECULATION ON POSSIBLE POLITICAL SIGNIFICANCE IN FOREIGN MINISTER MALIK'S RECENT TOUR OF EASTERN EUROPEAN COUNTRIES. EXPLANATION, HOWEVER, WAS SIMPLE. IN 1971 SOVIET UNION AND OTHER EASTERN COUNTRIES HAD OFFERED CREDITS TO INDONESIA ON HARDER TERMS INDONESIA COULD NOT THEN ACCEPT. WHEN INDONESIA CONCLUDED IT COULD ACCEPT CREDITS ON HARDER TERMS, PRESIDENT SUHARTO RECALLED THESE EARLIER OFFERS AND, GIVEN ANTICIPATED DECLINE IN IGGI HELP, WANTED TO DETERMINE WHETHER THESE OFFERS STILL OPEN. SO FAR, RESPONSE OF SOCIALIST COUNTRIES, HOWEVER, HAD NOT BEEN FULLY SATISFACTORY.

7. WIDJOJO SAID, IN ANSWER TO QUESTION, HE WAS AWARE OF INFLATIONARY ASPECTS OF ANTICIPATED EXPENDITURES. THIS WAS WHY GOI WISHED TO CONTROL PLANS TIGHTLY AND TO PUT AS MUCH EMPHASIS AS POSSIBLE ON ACQUISITION STOCKPILES WHICH COULD BE USED TO KEEP COSTS DOWN. HE ALSO SPOKE OF ULTIMATE NECESSITY TO REDUCE CURRENT SUBSIDIES ON ESSENTIAL COMMODITIES, WHICH ALSO INCLUDED IN GOI'S THINKING.

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8. WIDJOJO SAID HE DID NOT ANTICIPATE GOI WOULD SET FORTH ANY DETAILED PLAN FOR FINANCING OF SECOND FIVE YEAR PLAN, BUT WOULD PLAN ON YEAR TO YEAR BASIS WITH PROJECTS IN PLAN AS STARTING POINT.

9. COMMENT: WIDJOJO'S OUTLINE WAS CLEARST EXPLANATION I HAVE HAD OF HOW INDONESIA PLANS DEAL WITH NEW REVENUES AND WHY EMPHASIS STILL CONTINUES ON NEED FOR FOREIGN CREDITS, IF NOT CONCESSIONAL AID. SEVERAL ITEMS IN WIDJOJ PLAN, HOWEVER, INCLUDING BUILD-UP OF RESERVES, STOCKPILING, AND OVERRUNS ARE SHORT-TERM. IF SUBSIDIES ARE REDUCED AND INDONESIA GROWS AND MANUFACTURES MORE AND MORE ITEMS NOW BEING IMPORTED, EVEN GREATER QUESTION OF RELATION TO REVENUES VERSUS NEED FOR FOREIGN CREDITS LIKELY ARISE IN FUTURE YEARS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT, POLICIES, FOREIGN ASSISTANCE, ECONOMIC PROGRAMS, STOCKPILES, GOVERNMENT REVENUES
Control Number: n/a
Copy: SINGLE
Draft Date: 12 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974JAKART09881
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740220-0491
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740856/aaaabvtc.tel
Line Count: 168
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 15 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 APR 2002 by boyleja>; APPROVED <13-Aug-2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INDONESIA'S RESERVES AND AID
TAGS: EAID, ECON, EFIN, ID
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005